Headline	Rely on cheap electricity at your own peril		
MediaTitle	The Edge Financial Daily		
Date	25 Nov 2013	Color	Black/white
Section	Home Business	Circulation	25,000
Page No	4	Readership	40,000
Language	English	ArticleSize	259 cm²
Journalist	Levina Lim	AdValue	RM 1,992
Frequency	Daily	PR Value	RM 5,977

Rely on cheap electricity at your own peril

by **Levina Lim**

KUALA LUMPUR: Corporates and business owners will need to start rethinking their strategy to cope with increased costs of electricity in order to remain competitive, as it is unsustainable to continue relying on government-subsidised electricity.

Subsidised energy has been the magnet for foreign direct investments in the past decade. And thanks to low fuel costs, local businesses could gain a competitive advantage.

Subsidised energy has played a vital role in the industrialisation of the country in the past four decades. But how much more subsidised electricity can the country afford to supply in the long run to fuel sustainable economic development?

According to MyPower Corp, the days of cheap electricity are gone. "The true cost of power [when competitive bidding results are used as a benchmark] is 42 sen per kWh as opposed to the current tariff of 33.5 sen per kWh, which is an 8.5 sen per kWh (26%) difference.

"Tariff increase is required to close the gap between the true cost of power and the current subsidised tariffs," said Datuk Abdul Razak Abdul Majid, CEO of MyPower, the special purpose agency established to spearhead reform in liberalising the power sector in Malaysia.

Due to the dwindling gas production in the peninsula, the country is turning to the import of liquefied natural gas (LNG) at international prices that are more than double local regulated prices.

The regasification terminal, which started operation earlier this year at Melaka has facilitated the import of LNG to the country.

According to MyPower, the removal of close to RM12 billion of fuel subsidy to the power sector — which is expected to be withdrawn gradually by the Malaysian government in the coming years — will have a minimal impact on domestic consumers compared with industrial and commercial users.

"Industrial and commercial consumer groups consume about 75% of total electricity generated while the domestic sector's consumption makes up merely 21% of the total," said Abdul Razak at a recent briefing.

Headline	Rely on cheap electricity at your own peril		
MediaTitle	The Edge Financial Daily		
Date	25 Nov 2013	Color	Black/white
Section	Home Business	Circulation	25,000
Page No	4	Readership	40,000
Language	English	ArticleSize	259 cm²
Journalist	Levina Lim	AdValue	RM 1,992
Frequency	Daily	PR Value	RM 5,977

He stressed that independent power producers (IPPs) are not beneficiaries of Petroliam Nasional Bhd (Petronas) nor the Malaysian government [through gas subsidies of RM8 billion to RM12 billion per annum] as IPPs and Tenaga Nasional Bhd's (TNB) profits are indifferent to the price of gas, which is merely a pass-through cost to these firms.

"Electricity consumers are the true beneficiaries of gas subsidies via the subsidised electricity tariffs," said MyPower, adding that it is a common public misconception that TNB's RM4.2 billion [FY12] net profit was excessive.

The gas subsidies amounting to between RM8 billion and RM12 billion are indeed the revenue foregone by Petronas in supplying the natural gas at local regulated prices that are substantially lower than international prices. Currently, the international LNG price is about RM40 mmsfcd, while Petronas is selling it at RM13.70 to the power sector and RM18.35 to industrial users, such as steel makers.

According to a report by Morgan Stanley, TNB has a return on invested capital (ROIC) that is well below its costs, with sustainable ROIC of about 6.1% in comparison to a weighted average cost of capital [WACC] of 9.7% as at May 2013.

"In other words, if TNB's profits do not grow — in line with its debt and assets — TNB will not be able to effectively serve its future customers," MyPower stressed, adding that tariff increase is required to close the gap between the true cost of power and the current price that consumers are paying.

Nonetheless, Abdul Razak highlighted that the cost pass-through mechanism is conditional upon TNB achieving certain KPIs, for instance efficiency level. "TNB has to justify any proposed tariff hike; it will not get it if TNB fails to meet the required efficiency level," said Abdul Razak.

Most Malaysian businesses are dependent on cheap electricity, water, natural gas and foreign labour to remain competitive. Bluntly put, many of them have long been sheltered from rising fuel costs and wages. But going forward, it would be a different scenario. Soon the higher energy costs would eat into their profit margins if they don't evolve to cope with the rising costs.